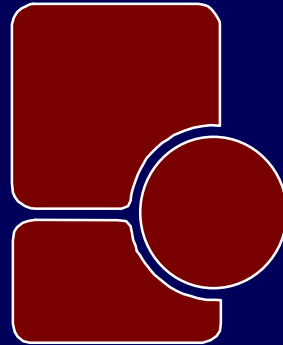


**Joint Legislative Audit and Review Commission  
of the Virginia General Assembly**



**Technical Report:  
The Costs of Raising Children**

**Staff Briefing  
October 10, 2000**

# Introduction

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## Staff for this study:

**Kirk Jonas, Deputy Director**

**Greg Rest, Project Leader**

**Daniel Oney**

# Presentation Outline

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## Introduction

- ☐ General Approach to Estimating Prevailing Costs of Raising Children
- ☐ Estimated Costs of Raising Children in Relation to the Child Support Guidelines

# Guidelines for Determining Child Support Payments in *Code of Virginia*

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<u>COMBINED MONTHLY GROSS INCOME</u>	<u>ONE CHILD</u>	<u>TWO CHILD- REN</u>	<u>THREE</u>	<u>FOUR</u>	<u>FIVE</u>	<u>SIX</u>
.						
.						
.						
3550	502	780	977	1101	1201	1285
3600	507	788	987	1112	1213	1298
3650	512	797	997	1124	1226	1311
3700	518	806	1009	1137	1240	1326
3750	524	815	1020	1150	1254	1342
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- Monthly child support is based on monthly gross income and the number of children.

# JLARC Study Mandate

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- **SJR 192 directs JLARC:**
  - to examine the costs of raising children in Virginia when parents live in separate households, and
  - to develop data that can be used to determine appropriate child support amounts.

# JLARC Study Scope

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- General Assembly would probably have to spend millions of dollars to collect Virginia-specific expenditure data
  - from large sample of custodial parents
  - then track down corresponding non-custodial parents.
- Before embarking on ambitious data-collection effort, General Assembly may wish:
  - first to examine currently available data more closely,
  - then to determine whether collecting additional data is cost effective.
- JLARC study focuses on examining currently available data.

# Research Activities

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## ■ Data Analysis

- BLS Consumer Expenditure Survey (CES)
  - Collected from Q1 1997 through Q1 1998  
(Current guidelines are based on 1972-73 CES data)
  - Number of observations used in analysis
    - 5,562 husband-wife households (116 from Virginia)
    - 1,666 single-parent households (34 from Virginia)
  - Collected without child support considerations in mind
- American Housing Survey
- National Personal Transportation Survey

## ■ Document Reviews

- Official USDA food plans
- National Medical Expenditure Survey results (projected to 1996-2005)

# Distribution of Consumer Expenditure Survey Data: Virginia vs. Nationwide

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- Compared distribution of 150 observations identified from Virginia with that of 7,078 from rest of U.S. (from 1997-98 Consumer Expenditure Survey)
- Controlled for family composition, by stratifying according to
  - Single-parent versus two-parent households
  - Number of children
- Differences between Virginia and nationwide observations not statistically significant
- Insignificant differences indicate that if Virginia-specific data were collected, results would not be very different from those based on nationwide data.



# Overview of Study Findings

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- Commonwealth of Virginia does not need to initiate a new Virginia-specific data collection effort.
- When controlling for income level, single-parent households were not found to have expenditure levels that were vastly different from husband-wife households.
- Estimated expenditures on children can vary substantially, depending on the method of estimation.
- Key finding from comparing estimated expenditures to current guidelines:  

Among households earning less than \$30,000 annually, a majority spend more on children than amounts currently in Virginia's guidelines.

# Presentation Outline

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- ☐ Introduction
- ☒ **General Approach to Estimating Prevailing Costs of Raising Children**
- ☐ Estimated Costs of Raising Children in Relation to the Child Support Guidelines

# Study Approach Depends on Three Key Assumptions

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- Cost estimates based on empirically observed prevailing household expenditures
- Cost estimating *method* is emphasized, because child-rearing expenditure data are often co-mingled with expenditures for entire household
- Cost of raising children varies with household income

# Overview of Four Steps in Estimating the Costs of Raising Children

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## ■ Four steps are:

- Observe each household's expenditures in each expense category.
- Determine in each cost category the proportion attributable to children.
- In each category, multiply the children's proportion by each household's expenditures, and sum the expenditures on children across all the categories.
- Estimate prevailing total household expenditures on children.

## ■ See page 12A for a more comprehensive graphic representing overview of four basic steps.

# Example of Step 1: Observe Individual Household's Expenditures

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- For individual husband-wife household with two children
- Observe household's monthly expenditures on:
  - Food: \$500
  - Housing: 1500
  - Transportation: 500
  - Health Care: 200
  - Children's Clothing: 200
  - Child Care & Education: 200
  - Miscellaneous Costs: 300

# Example of Step 2: Determine Proportion of Expenditures on Children

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## ■ For individual husband-wife household with two children:

- Food: 45.2%
- Housing: 50.0%
- Transportation: 50.0%
- Health Care: 30.7%
- Children's Clothing: 100.0%
- Child Care & Education: 100.0%
- Miscellaneous Costs: 50.0%

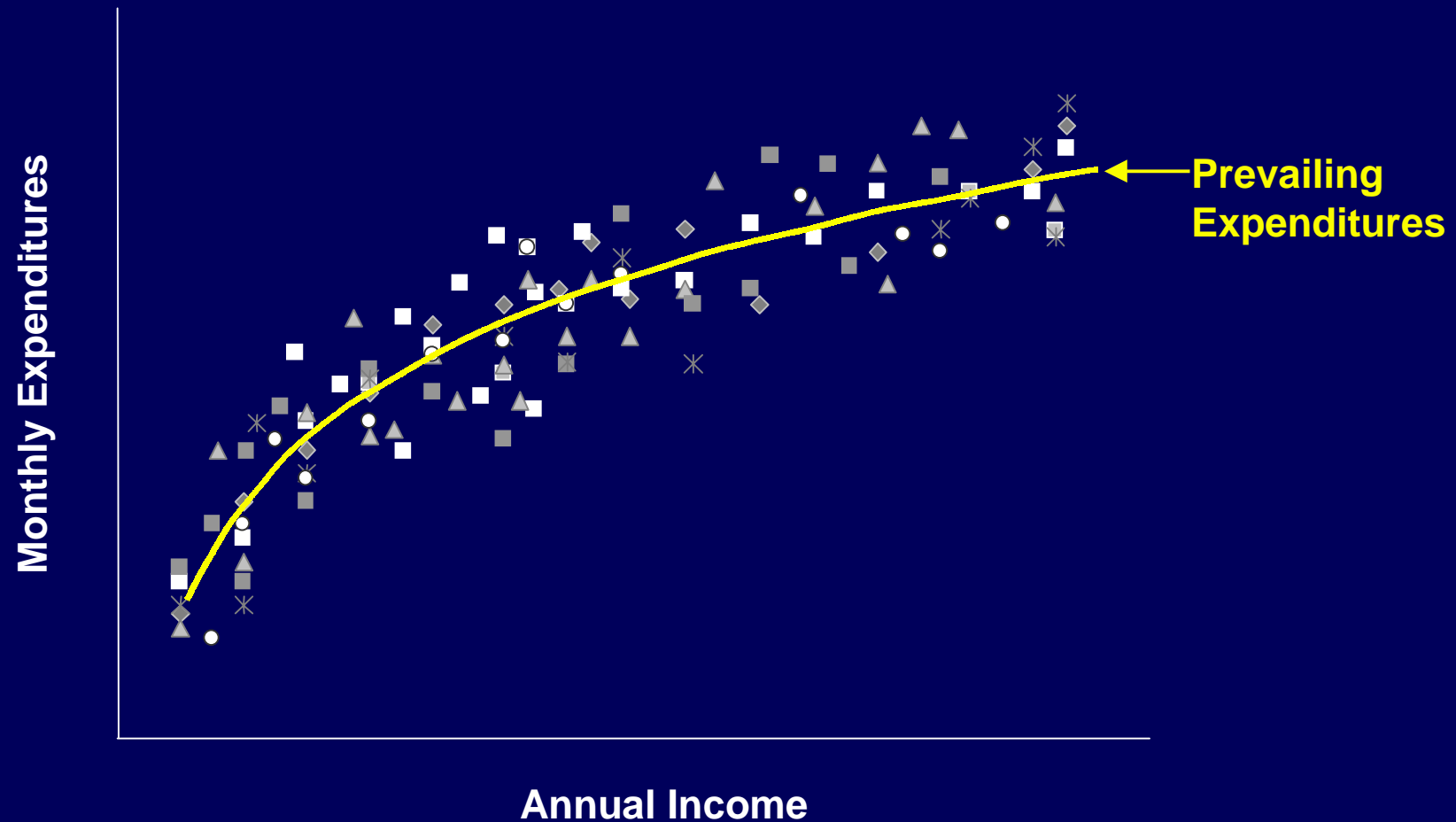
# Example of Step 3: Estimate Individual Household's Expenditures on Children

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	<u>Total Household Expenditure</u>	x	<u>Children's Proportion</u>	=	<u>Household Expenditure on Children</u>
Food	\$500		45.2%		226
Housing	1500		50.0%		750
Transportation	500		50.0%		250
Health Care	200		30.7%		61
Kids' Clothing	200		100.0%		200
Child Care & Ed.	200		100.0%		200
Miscellaneous	300		50.0%		150
					<hr/>
	MONTHLY TOTAL				\$ 1,837

# Example of Step 4: Estimate Prevailing Expenditures on Children Across All Households

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# Four Possible Approaches for Attributing Proportion of Expenditures to Children

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- Data reported separately for children in Consumer Expenditure Survey (for child care and clothing)
- Allocations based on averages calculated for children and adults from federal studies
  - Official USDA Food Plans (food expenditures)
  - National Medical Expenditure Survey (health care)
- “Per capita” approach, which evenly divides household expenditures by number of family members
- “Average use” approach, which observes how much housing or transportation households with children use on average, compared to households without children

# Key Policy Decision: Whether to Use Per Capita or Average Use Approach

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- Applied to household housing and transportation expenditures
- Using one approach over another can make substantial difference on each household's estimated expenditure on children.
- Advantages and disadvantages of each approach are discussed in Chapter II of report.

# Presentation Outline

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- ☐ Introduction
- ☐ General Approach to Estimating Prevailing Costs of Raising Children
- ☒ **Estimated Costs of Raising Children in Relation to the Child Support Guidelines**

# Estimated Expenditures on Children Can Be Used in Two Ways

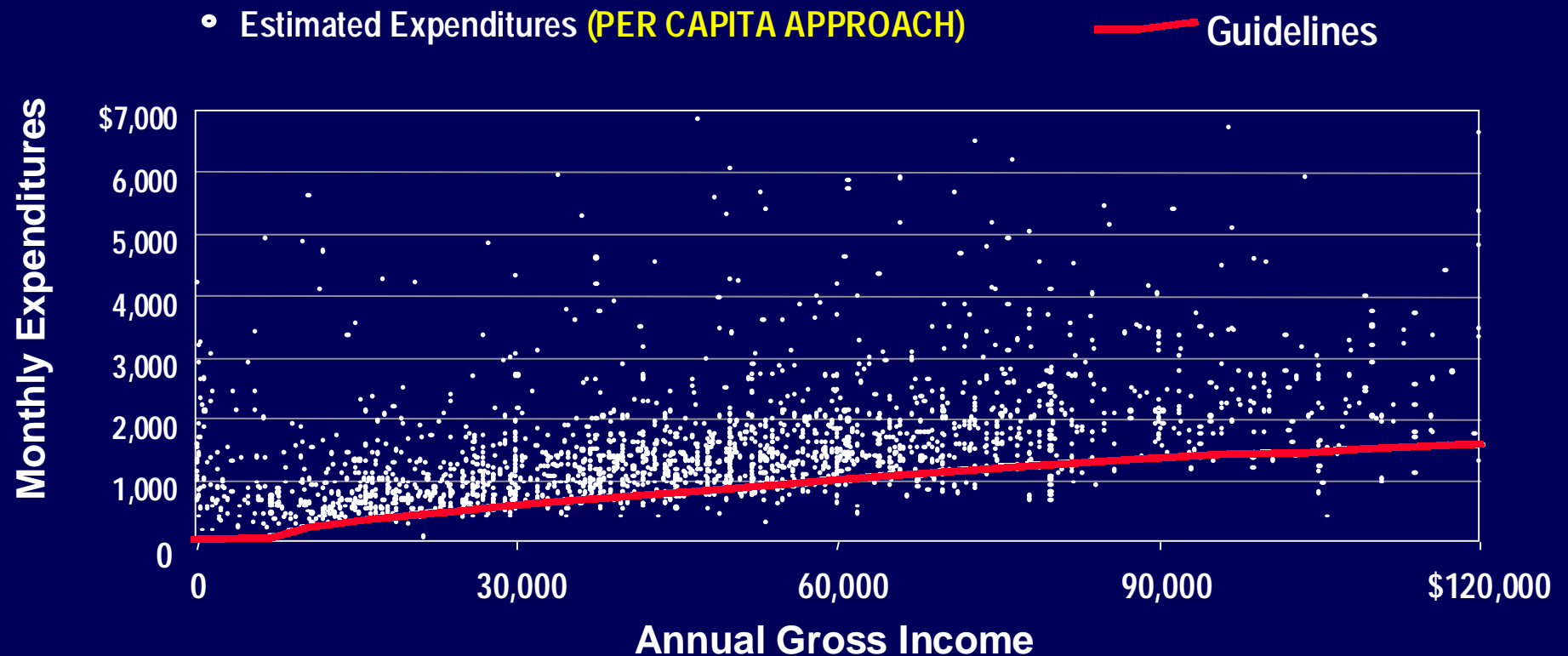
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- Determine what percentage of households has estimated expenditures above (or below) total amount for child support assumed in current guidelines (for given income level).
- Use prevailing expenditure estimates (and additional policy decisions) for determining alternative sets of child support guidelines.

# What Percentage of Households Are Spending More than Amounts in Guidelines?

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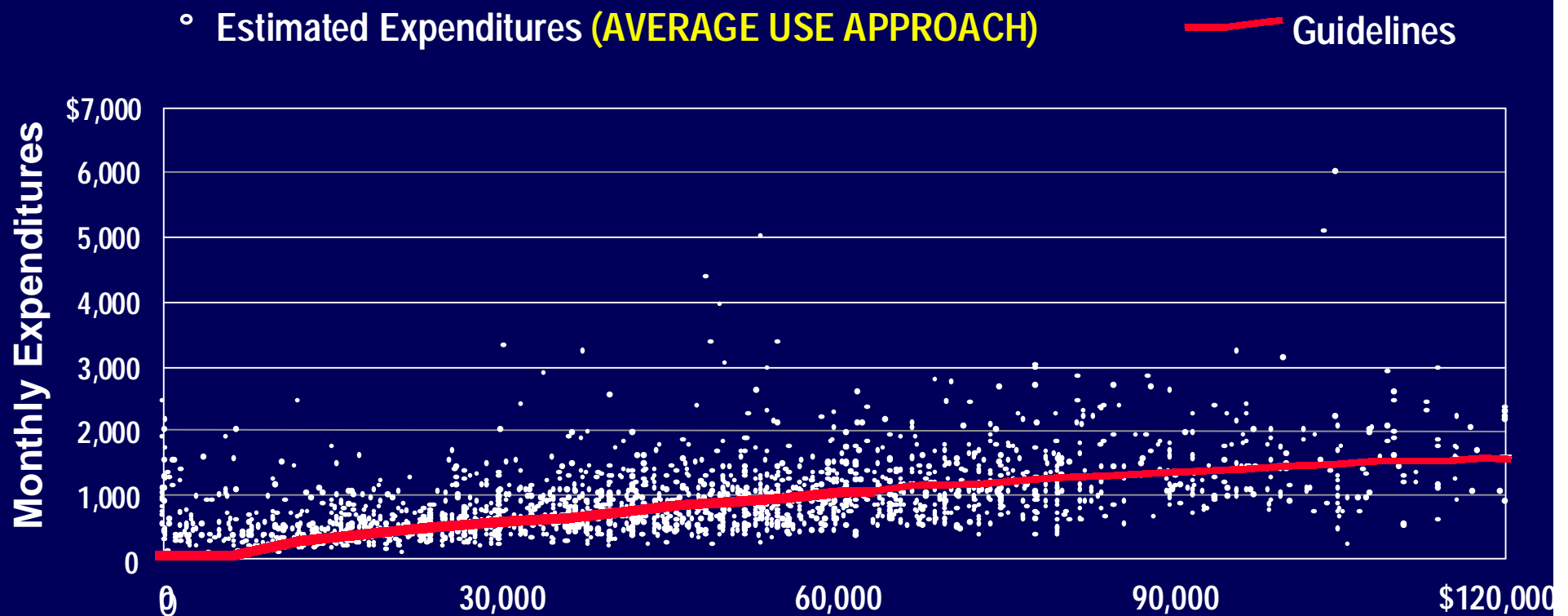


Note: This illustration is from husband-wife households with two children

# What Percentage of Households Are Spending More than Amounts in Guidelines?

(Continued)

22



Note: This illustration is from husband-wife households with two children

# What Percentage of Households Are Spending More than Amounts in Guidelines?

## (Continued)

23

### ■ Households with annual incomes less than \$30,000

- Vast majority estimated to spend more on children than amounts specified in child support guidelines
- This finding appears regardless of:
  - Number of children in household
  - How expenditures on children are estimated

### ■ Households earning \$30,000 or more annually

- Pattern varies, depending on approach used for estimating expenditures on children
  - Under PER CAPITA approach: vast majority of households spend more on children than amounts in guidelines
  - Under AVERAGE USE approach: about one-half to two-thirds of households estimated to spend below amounts in guidelines

# Using Prevailing Estimated Expenditures to Determine Alternative Child Support Guidelines

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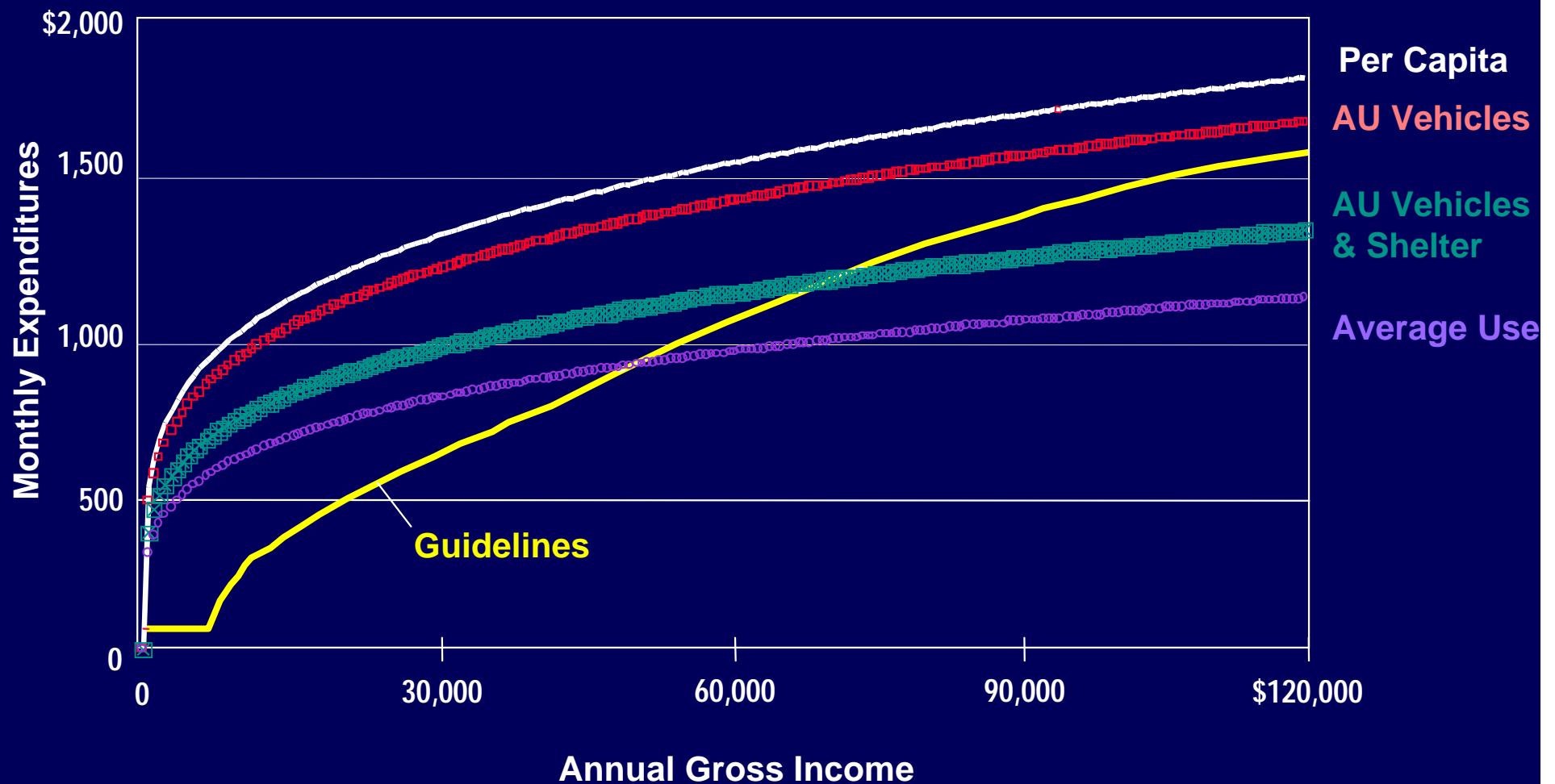
24

- Study mandate specified: “The Commission shall develop data that can be used to determine appropriate child support amounts.”
- If review panel or General Assembly wishes to determine child support guideline amounts based on expenditure estimates generated in this study, it could use prevailing expenditure curves in Chapter III of report.



# Example of Prevailing Expenditure Curves (and Current Child Support Guideline Amounts)

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# Conclusions

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- Commonwealth of Virginia should not initiate new, Virginia-specific data collection effort.
- When controlling for income level, single-parent households were not found to have expenditure levels that were vastly different from husband-wife households.
- Virginia child support guidelines should be based on husband-wife household expenditure data for technical reasons:
  - More complete information regarding total expenditures and income of household.
  - More consistent with Virginia's income-shares approach for determining child support payments.

# Conclusions (Continued)

27

- **Estimated expenditures on children can be used**
  - to evaluate current guidelines
  - to help determine new, alternative guidelines
- **Key findings from analysis of estimated expenditures in relation to guidelines:**
  - Among households earning less than \$30,000 annually, majority spend more on children than amounts in guidelines.
  - Key policy decision affecting expenditure estimates: whether to use per capita or average use approach.
  - Policy decisions and adjustments are needed in addition to expenditure estimates to determine appropriate child support amounts in guidelines.

# Recommendations

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- ***Recommendation (1).*** The Commonwealth of Virginia should not initiate a new, Virginia-specific data collection effort on the costs of raising children. Instead, future Child Support Guideline Review Panels should use data collected from the most recent Consumer Expenditure Survey from the Bureau of Labor Statistics of the U.S. Department of Labor.

# Recommendations (Continued)

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- ***Recommendation (2).*** The Secretary of Health and Human Resources should direct the next Child Support Guideline Review Panel to include the following points in its deliberations when it considers the costs of raising children in evaluating or revising the guidelines.
  - (a) It should consider basing Virginia child support guidelines on estimated expenditures from husband-wife households rather than from single-parent households.
  - (b) It should consider whether the guidelines for families earning a combined gross income of less than \$30,000 annually should be increased.
  - (c) When estimating expenditures on children, it should consider whether housing and transportation costs should be attributed to children based on the per capita or the average use approach (or some combination of the two).

## Recommendations (Continued)

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- ***Recommendation (3).*** The Secretary of Health and Human Resources should direct the next Child Support Guideline Review Panel to consider what policy decisions or adjustments should be made in addition to expenditure estimates to determine appropriate child support amounts.